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C O N F I D E N T I A L SECTION 01 OF 02 SANAA 000037

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TAGS: [PGOV](#) [KCOR](#) [KMCA](#) [KMPI](#) [YM](#) [ECON](#) [COM](#) [DEMOCRATIC REFORM](#)

SUBJECT: ECONOMIC REFORM PART DEUX: ROYG MAKING LIMITED
CONCESSIONS TO PARLIAMENT

Classified By: CDA Nabeel Khoury for reasons 1.4 (b. and d.)

1. (C) Summary. During a rancorous Parliamentary session on December 26, Prime Minister Ba Jammal's bodyguards ushered him out of the building while he was trying to give a speech promoting the government's 2005 budget. Attached to the budget are much needed economic reforms including reduction of the diesel subsidy, implementation of a general sales tax, and amendments to the customs and general investment laws. After what newspapers are calling an "attack," Parliament was shut down for two days before reconvening the contentious budget debate December 29. Also on December 29, President Saleh announced judicial reforms that may well signal his first attempt to respond to Parliamentary demands that the executive get serious about addressing corruption. End summary.

Ba Jammal Returns -- Ousted Again -- Parliament Shut Down

2. (SBU) On December 26, Prime Minister Ba Jammal made a second attempt at defending economic reforms, now attached to the ROYG's 5 Billion USD 2005 budget plan. Ba Jammal's bodyguards, sensing a physical threat, swiftly removed the widely unpopular PM from Parliament. In violation of constitutional law, Parliament was shut down for two days and several MPs staged sit-ins in front of the building. Parliament reopened on December 29. (Note: In September he was also whisked out of Parliament under threat of violence while advocating for the reforms package, at that time being considered separately from the budget proposal. End note).

3. (SBU) According to several contacts close to Parliament, on the day of the ruckus, many MPs raised conditions for approving the budget, including calling on the executive to fully implement the Local Councils Law. (Note: In effect, this would mean that fifty percent of national investment budget would be obligated to local councils in 2005 as opposed to the current 11 percent. Many councils scarcely receive any budget and several, including in the Marib governorate, have never met. End note). Other Parliamentarians demanded amendments to the budget to limit the power of the Ministry of Finance to disburse funds, and anti-corruption amendments to the tendering law.

Saleh Announces Judicial Reforms

4. (SBU) In a December 29 speech to the higher judicial council, Saleh announced judicial reforms including the dismissal of 22 judges for misconduct and the retirement of 108 elderly judges. Saleh sent eight judges to the so called "accountability council" for misconduct, and added several new undersecretaries to the Ministry of Justice. The Judicial Inspection Commission was also granted increased staffing and funding to enhance its oversight capabilities. State run press referred to these changes as "sweeping."

Rumors of Riots and Price Hikes

5. (C) Sanaa this past week was riddled with rumors that the government is raising prices on all foodstuffs, diesel prices will double overnight and mass demonstrations will occur downtown. The Joint Meeting Party, a coalition of eight opposition parties, announced their objection to the "doses," and called on Yemenis to oppose price hikes. According to a senior Yemeni NGO democratic expert, Northern tribes and members of the military who benefit from diesel smuggling are fueling the opposition to economic reform. Northern Brigade Commander Ali Muhsen, rumored a potential successor to Saleh, is said to be behind the opposition and many in Sanaa note that it is his papers that are predicting economic disaster if such reforms are implemented.

6. (SBU) PM Ba Jammal announced on January 6 that Parliament passed the government's budget late the previous evening by a majority of 161 votes, versus 25 opposing, and six abstaining. Many from the opposition Islah and YSP parties simply walked out during the session. (Note: Details of this session will be covered septel. Semi-official al-Thawra

daily bannered "no increases in oil or oil or gas derivatives." End Note).

Comment:

17. (C) Although the executive in Yemen is not required to seek approval of its budget program from Parliament, Saleh put the budget before Parliament with the economic reform package attached in a likely attempt to delay implementation and gain political cover for reforms that are not popular with the public. Parliament seized the opportunity to leverage some of their long-standing complaints on corruption and fiscal decentralization. Post believes that most MPs simply oppose reforms because they will personally lose revenue, however, there are several reform minded MPs working to stop the reform package because they believe the ROYG is not doing enough to fight corruption. Saleh, who has stayed out of the high-volume debate, allowed Parliament to voice its opposition and was able to put off frustrated World Bank, IMF and Donor reps calling for the economic reform package. Mission's MEPI and USAID funded activities in decentralization and parliamentary strengthening will serve to buttress the continued effort to reform.

18. (C) Comment continued. While Parliament's central goal to decentralize is still actively being debated, Saleh's announcement on judicial reform is likely a concession to Parliament's long-standing corruption complaints. Removing the diesel subsidy and implementing the general sales tax would have seriously affected tribal and business interests, crucial to Saleh's balance of power. The political will to take on those measures is still clearly not there. Nevertheless, Parliament continues to gain momentum on issues of corruption and decentralization and the liberal minded at least are proving to be a positive force against state-corruption, even as the majority are still blocking needed economic reform. Senior ROYG officials hoping to gain democratic cover for their self interested policies have unwittingly unleashed an increasingly vocal and active Parliament. End comment.
KHOURY